Introduction

Non-performing Assets (NPAs)

Non Performing Asset (NPA) is a loan or advance for which the principle or interest payment remained overdue for a period of 90 days. The level of NPAs is recognized as a critical indicator for assessing banks' credits risk, asset quality and efficiency in allocation of resources to productive sectors.

Banks are required to classify NPAs further into Substandard, Doubtful and Loss assets. **Substandard assets** which has remained NPA for a period less than or equal to 12 months. **Doubtful Assets** which has remained in the substandard category for a period of more than 12 months. **Loss assets** where the dues are considered uncollectable or only marginally collectible.

Types of NPAs:

1. **Gross NPAs**
   Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines. It reflects the quality of the loan made by banks.
   Gross NPAs Ratio = Gross NPAs / Gross Advances

2. **Net NPAs**
   Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. It shows the actual burden of banks.
   Net NPAs Ratio = Net NPAs / Net Advances

The most calamitous problem, commercial banks are facing all over the world in recent time is spiraling Non-performing assets which are affecting their viability and solvency and thus posing challenge to their ultimate survival. NPAs not only adversely affect lending activity but also profitability of the banks. Besides, banks with high level of NPAs have to carry more owned funds by way of capital and create reserves and provisions and to provide cushion for the loan losses.

Thus NPAs make two-pronged attack on the bottom-lines of commercial banks; one, interest applied on such assets is not taken into account because such interest is to be taken into account only on its realization unlike interest on performing assets which is taken into account on accrual basis; two, banks have to make provisions on NPAs from out of the income earned by them on performing assets.

The solvency crisis of financial systems, such as the American Saving and Loan crisis in the 1980s, the Nordic banking crisis at the beginning of 1990s and more recently, the banking sector problems in Japan and Turkey and of late subprime crisis in the USA have, in large measure, been a consequence of accumulation of problem loans overtime.

Persistently high level of NPAs in loan portfolio of banks makes them fragile, leading ultimately to their failure. This will shake confidence both of domestic and global investors in the banking system which will have multiplier effect, bringing disaster in the economy.

Thus, managing bad loans and keeping them at the lowest possible level has become a keyword for the banking industry in recent years which is critical for banks. The world class banks do not have NPAs of over 2% of the total portfolio and NPA level of over 5% is indicator of poor quality of loan portfolio. With growing competition and shrinking spreads, banks should strive to keep NPAs

much below the level of 10% to make net earning necessary for their survival and growth. Thus, the most critical condition for bringing about an improvement in the profitability of banks is reduction in level of NPAs. In fact, it is pre-condition for the stability of the financial system.

Recent trends in NPAs

However, in recent years, particularly after economic reforms, decline in Gross NPAs ratio of all schedule commercial banks was noticeable. Thus, it may be glanced from table below that although gross NPAs in absolute terms surged during 1997- 2012, these increases have been at lower rate in correspondence with gross advances leading to fall in their respective share from 15.7 % to 4.3%. Thus there has been improvement in the asset quality of the banks.

Data of Schedule commercial banks of India

Year	GNPA(in Rs. billion)	GNPA ratio
2014-15	3233.45	4.3
2013-14	2633.72	3.8
2012-13	1940.53	3.2
2011-12	1429.03	3.1
2010-11	979.00	2.5
2009-10	846.98	2.4
2008-09	683.28	2.3
2007-08	563.09	2.3
2006-07	504.86	2.5
2005-06	510.97	3.3
2004-05	593.73	5.2
2003-04	648.12	7.2
2002-03	687.41	8.8
2001-02	708.61	10.4
2000-01	637.41	11.4

1999-00	604.08	12.7
1998-99	587.22	14.7
1997-98	508.15	14.4
1996-97	473.00	15.7

Interestingly, during the crisis year 2008-09, the gross NPA ratio remained unchanged for Indian banks. However, during 2009-10, gross NPA of SCBs showed a rise clearly indicating greater defaults in repayment of banks' loan by the borrowers. During 2011-15 gross NPAs increased substantially.

Impact of NPAs upon banks

The only problem that hampers the possible financial performance of the public sector banks is the increasing result of NPAs. The NPAs impacts drastically to the working of the banks.

- They erode current profits through provisioning requirements.
- They result in reduced interest income.
- They require higher provisioning requirements affecting profits and accretion to capital.
- They limit recycling of funds, set in assets-liability mismatches, etc.
- Adverse impact on Capital adequacy Ratio.
- ROE and ROA goes down because NPAs do not earn.
- Banks' rating gets affected.
- Banks' cost of raising funds goes up.
- RBIs' approval required for declaration of dividend if Net NPA ratio is above 3%.
- Bad effect on goodwill.
- Bad effect on equity value.

Causes for high level NPAs

NPAs came into Indian financial systems consequent upon introduction of Prudential Accounting Norms by RBI, In order to ensure greater transparency in the borrowal accounts and to reflect actual health of banks in their balance sheets. These norms have put in place objective criteria for asset classification, provisioning and recognition of income which was lacking hitherto. An era of treating profits (even unrealized) was changed to providing for expected loss. Reasons for the high level of NPAs are given below:

Borrowers side	**Banks side**	**Others**
1) Failure to bring in required capital 2) Too ambitious project 3) Longer gestation period 4) Unwanted expenses 5) Over trading 6) Imbalances of inventories 7) Lack of proper planning 8) Dependence on single customer 9) Lack of expertise 10) Improper working capital management 11) Mismanagement 12) Diversion of funds 13) Poor quality Management 14) Heavy borrowings 15) Poor Credit collection	1) Failure to bring in required capital 2) Too ambitious project 3) Longer gestation period 4) Unwanted expenses 5) Over trading 6) Imbalances of inventories 7) Lack of proper planning 8) Dependence on single customer 9) Lack of expertise 10) Improper working capital management 11) Mismanagement 12) Diversion of funds 13) Poor quality Management 14) Heavy borrowings 15) Poor Credit collection	1) Lack of infrastructure 2) Fast changing technology 3) Unhelpful attitude of government 4) Changes in consumer preference 5) Increase in material cost 6) Government policies 7) Taxation laws 8) Civil commotion 9) Political hostility 10) Sluggish legal system 11) Changes related to banking amendment act.

Measures initiated by RBI and Government for reduction of NPAs

From the regulators' perspective, there are four steps to the management of NPAs, viz; assessment, provisioning, recovery and prevention of fresh NPAs. The recent initiatives in the management of NPAs are related in greater measure to the third and fourth aspect although norms relating to the first and second aspects have been progressively tightened to bring them at par with international best practices. Curative measures are:

- **Compromise settlement schemes**
- **Restructuring and Rehabilitation**
- **Lok adalats**
- **Debt recovery tribunals**
- **Circulation of information on defaulters**
- **Recovery action against large NPAs**
- **Asset reconstruction company**
- **Legal reform**
- **Corporate debt restructuring**

- **Credit information bureau**
- **Proposed guidelines on willful defaults/diversion of funds**
- **Corporate governance**
- **Securitization act 2002**

To fight the growing NPAs the Indian banking and financial industry required powerful and effective financial regulation and Act. To overcome this problem, the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act OR securitization Act, 2002 was brought. Until the enactment of Securitization Act, banks had to enforce their security through court which was very slow and time consuming process.

Securitization Act (2002)

Securitization act facilitate process for conversion of Non-performing assets or loans into marketable securities. The Act provides three alternative methods for recovery of NPAs:

1. **Securitization**
   Securitization is the process of issuing marketable securities backed by a pool of existing assets such as auto or home loans. After an asset is converted into market security, it is sold. Securitization Company or Reconstruction Company may raise funds from only the qualified institutional buyers by forming schemes for acquiring financial assets.
2. **Asset reconstruction**
   It can be done by either proper management of the business of the borrower, or buy taking over it or by selling a part or whole of the business or by rescheduling of payments of debts payable by the borrower.
3. **Exemption from registration of security receipt**
   When the Securitization company or Reconstruction company issues receipts, the holder of the receipts is entitled to undivided interests in the financial assets and there is no need of registration unless and otherwise it is compulsory under the registration Act 1908.

The Act encompasses the areas of

- ✓ securitization of financial assets ;
- ✓ reconstruction of financial assets;
- ✓ recognition to any security interest created for due repayment of a loan as security interest under the Securitization Act, irrespective of its form;
- ✓ banks and financial institutions have the power to enforce the security without intervention of the courts;
- ✓ setting up the Central Registry for registration of the transaction of securitization, reconstruction and creation of security interests.

Salient features of the securitization act

The salient features of the securitization act are:

1) In case any **borrower** is classified by the secured creditor as **Non-performing asset**, then the secured creditor may require the borrower to discharge his liabilities within **60 days** from the date of notice, failing which the **secured creditor** shall be **entitled** to take recourse to one or more of the following measures to recover his secured debt:
   - **Take possession** of the secured assets of the borrower,
   - **Take over** the management of the secured assets of the borrower,
   - **Appoint** any person to manage the secured asset.
2) In the case of financing of a financial asset by **more than one secured creditors**, no secured creditor shall be entitled to exercise any of the above powers unless excise of such right is agreed upon by the secured creditors representing not less than **three-fourth in value** of the **amount outstanding** as on a record date and such auction will be binding on all secured creditors .
3) **No borrower** shall, after receipt of the notice, **transfer** by way of sale, lease or otherwise any of his **secured assets** referred **to in the notice**.
4) Where the possession of any secured asset is required to be taken by the secured creditors, the **secured creditors** may request in writing the **chief** metropolitan magistrate or the **district** magistrate **to take possession** thereof and the magistrates will, on such request being made to him –
   - **Take possession** of such assets and documents relating thereto,
   - **Forward** such asset and documents to the secured creditor, and
   - **No act of the magistrates** done in this respect shall be **called in question** in any court or before any authority.
5) **Any person**, aggrieved by any of the measures as referred to above by the secured creditor, may **prefer an appeal** to the debts recovery tribunal having jurisdiction in the matter **within 45 days** from the date on which such measures had been taken.
6) Where **an appeal** is preferred by **a borrower**, such appeal shall not be entertained by the DRT, unless he **deposits 75% of the amount** claimed in the notice. However DRT may reduce the amount to be deposited.

Objectives of Securitization

There are two basic objectives of securitization:

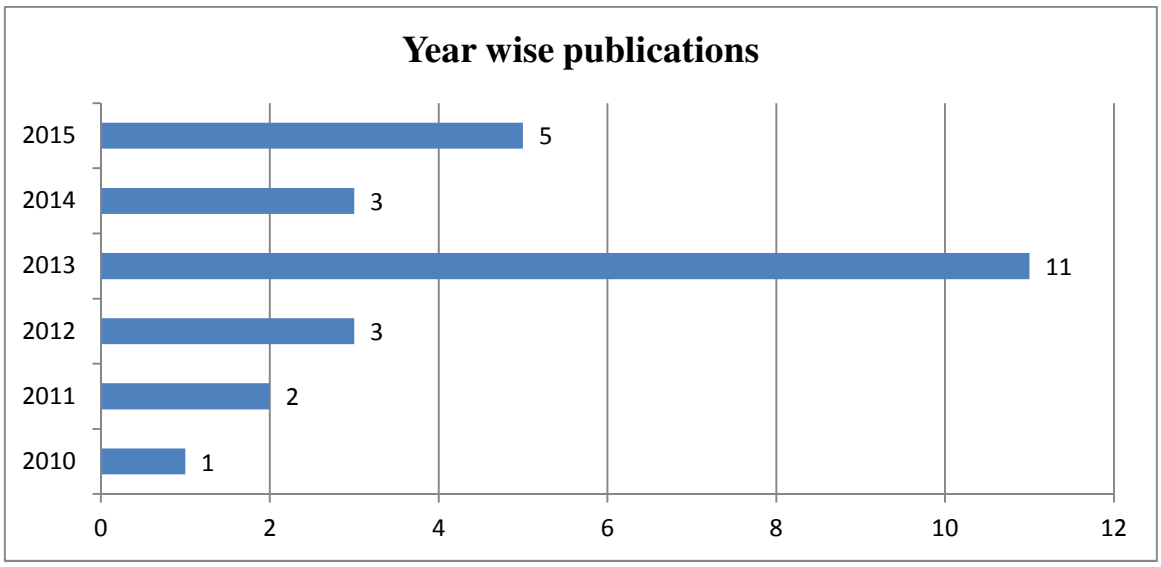
1) To reduce the assets of the originator to reduce the capital requirement.
2) To achieve the reduction in demand and time liability.

Once the assets go off the balance sheet the originator can thus reduce his capital requirement, similarly on the liquidation of the assets the need for the time assets and the demand liability comes down as these are subject to the statutory reserves.

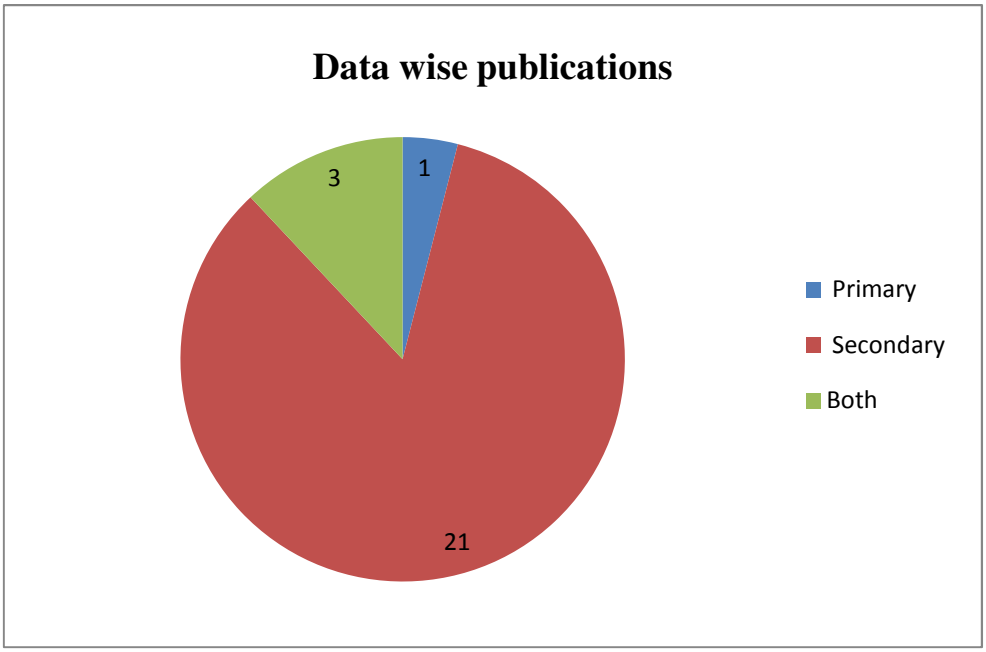
Literature Review

Narrative methodology is used to review the available literature for the study. Over the years, various efforts have been made by the researchers to evaluate the different interrelated aspect of securitization and NPAs. The research works are **concentrated on secondary data** for the study and mostly related to year **2013 and 2015.**

Year wise publications



Data wise publication



Author (Year)	Title	Objectives of the study	Research methodology	Findings of the study
1. Dr. Sudesh & Archna Makker (2015)	Impact of Securitization Act 2002 on Recovery of NPAs in Public Sector Banks	✓ To know banker's perception regarding role played by the SARFAESI Act 2002 ✓ To know effectiveness of this act in recovering dues from borrowers.	PSBs in Haryana (200 respondents); Convenient sampling; Primary data; Questionnaire; Descriptive statistics & ANOVA	✓ NPAs improved after enactment of act and with the help of enforcement of security interest delayed in recovery of loan are removed. ✓ Securitization Act is important in reducing regulatory capital requirement for Bank and increases the return on asset ratios of Banks.
2. Dr. Manas Chakra Barti (2015)	Role of Asset Reconstruction Companies in NPA management in Indian Banking Sector : An empirical study	✓ To explain need for NPAs management and strategy adopted for it. ✓ To elucidate conceptual aspects & need of ARCs and Recommendation for it.	Indian Banking Industry ; Secondary data ; Descriptive statistics	✓ ARCs can function in an effective manner as a nodal resolution agencies with regulatory powers. ✓ ARCs can improve their performance by cutting time to resolution & maximizing the recoveries.
3. Vasantha Kumari & Dinesha G A (2015)	Recovery Management in Indian Commercial Banks	✓ To analyze the trends and level of NPAs . ✓ To elaborate mechanism and process of debt recovery.	Indian Banking Industry ; Secondary data ; Descriptive statistics	✓ All sectors of banks on an average have maintained above 96 % standard assets. ✓ Private sector banks have maintained standardness above 97 %. ✓ In foreign Banks, Doubtful assets have increased from Rs. 698 crores (0.7%) in 2006 to Rs. 2113 crores (1.1%).

Author (Year)	Title	Objectives of the study	Research methodology	Findings of the study
4. A. Garg (2015)	Statistical Investigation and Comparative Assessment of the Non-Performing Assets of Indian Commercial Banks	✓ To assess the possible correlation among profitability and NPA levels. ✓ To estimate contrasts among the distinct groups of the banks for the levels of NPAs.	Indian Banking Industry ; Secondary data ; Correlation, T-test	✓ Net NPA and profits don't have significant correlation for PSBs and private bank but have for foreign bank . ✓ Net NPAs to net advances ratio don't have significant difference for schedule commercial banks as distinct group but have significant difference for net NPA's for these group.
5. Mayur Rao & Ankita Patel (2015)	A study on Non-performing Assets Management with reference to Public Sector Banks, Private Sector Banks and Foreign Banks in India	✓ To analyze & interpret various NPA related ratio for banks. ✓ To analyze and interpret the NPA management.	Indian Banking Industry ; Secondary data ; Least square method	✓ Ratio of gross NPA to gross advances is decreasing for PSBs. ✓ The highest NPA is predicted for PSBs in the year 2014. ✓ Ratio of gross NPA to gross advances for these banks does not have significant difference.
6. Dr. Sonia Narula & Monika singla (2014)	Empirical Study on Non Performing Assets of Bank	✓ To compare total advances, net profit, net & gross NPA & relations between them. ✓ To study impact of NPA on bank & its performance.	Punjab National Bank; Secondary data ; Descriptive statistics & Coefficient of Correlation	✓ Gross advances, net profit, gross NPA & net NPA increasing continuously. ✓ Positive relation Between:- i) Total advances, Net Profit & NPA ii) NPA & Profit ✓ Due to arise NPA bank has a adverse effect on liquidity & unable to give loan to new customer.

Author (Year)	Title	Objectives of the study	Research methodology	Findings of the study
7. Saikat Ghosh Roy (2014)	Determinants Of Non-performing Assets In India - Panel Regression	✓ To investigate the trends in NPA of Indian banks and its determinants .	Indian Banking Industry ; Secondary data ; Descriptive statistics & Panel Regression Model.	✓ The GDP growth, change in exchange rate and global volatility have major effects on the NPAs level. ✓ Banks are more prone to take CDR route than going for SARFAESI Act, Debt Recovery Tribunals and Lok Adalats for the resolution of NPAs.
8. Kawale Pushpa lata & Sagar Pandhari (2014)	A study of Non-performing Assets management of Latur District Central Cooperative Bank	✓ To know nature & trends of NPA ✓ To study the implementations of prudential norms and NPA norms.	Latur District Central Cooperative Bank ; Secondary Data ; Descriptive statistics	✓ LDCC bank's net NPA was nil. ✓ NPA provision showed increasing trend, ✓ Gross NPA & Ratio of gross NPA to total advances were showed decreasing trends during the study period.
9. Archana Makkar & Dr. Sudesh (2013)	Study of pre and post impact of enactment of SARFAESI ACT, 2002 on NPAs of banks.	✓ To evaluate the effectiveness of the enactment of Securitization act 2002 on the NPAs of state bank of India.	state bank of India ; Secondary data ; Descriptive statistics & t-test	✓ The result of study concluded that Securitization Act has significant impact on level of gross NPAs and Net NPAs of state bank of India. ✓ After the introduction of the SARFAESI Act 2002 the level of Gross and Net NPAs decreased and net profit increased year by year in state bank of India.

Author (Year)	Title	Objectives of the study	Research methodology	Findings of the study
10. Suman Chakraborty & Sabat Kumar Digal (2013)	Securitization in India: A Strategic Tool for Competitiveness	✓ To discuss present scenario, potential and future of the securitization in India. ✓ To explain process , growth of and reason for securitization in India.	Indian Banking Industry ; Secondary data ; Descriptive statistics	✓ Securitization has emerged as one of the most effective means of capital creation. ✓ Securitization is another venue for FIs to demonstrate their competitiveness and to broaden their markets. ✓ It has been a tremendous boon for banks/ FIs which are beleaguered by excess illiquid and NPAs.
11. Ujjawal Bajaj (2013)	Securitization in India : A bumpy ride	✓ To discuss several aspect of Indian Securitization market like, process, fluctuating performance to global events, significant changes in regulations.	Indian Securitization market ; Secondary data ; Descriptive statistics	✓ Since the inception, Securitization volumes have been scaling peaks every year till 2005, after declining in 2006 market grew till 2008, started declining till 2011, Increased in 2012 by 26 % and decreased in 2013. ✓ In 2012 RBI guideline on securitization shifted assignment route to conventional securitization route.
12. Ang Li & Meng Liu (2013)	Practical development of NPAs Securitization in China & other countries	✓ To analyze the necessity of NPAs securitization in China. ✓ To elaborate the process of attempting NPAs securitization in China.	Chinese Banking Industry ; Secondary data ; Descriptive statistics	✓ Asset securitization is created under unfavorable operating environment and increase risk of a credit situation. ✓ Securitization took place in November 2001 first time for disposing NPAs in Chinese history and this attempt process is moving forward gradually.

Author (Year)	Title	Objectives of the study	Research methodology	Findings of the study
13. Neeraj Kumar Saddy & Dr. Harpreet Kaur (2013)	Recovery management of NPAs of Public & Private Sector Banks	✓ To elucidate the importance of debt recovery. ✓ To compare NPAs amount recovered by banks through various recovery channels.	Public & Private sector banks ; Secondary data ; Descriptive statistics	✓ Among various recovery channels SARFAESI Act & DRTs are more effective in terms of amount recovered. ✓ The direct act of taking possession of secured asset of the defaulter is still preferred method for banks in India.
14. Pallab Sikdar & Dr. Munish Makkad (2013)	Role of Non Performing Assets In The Risk framework Of Commercial Banks – A Study Of Select Indian Commercial Banks	✓ To put forward means of interpreting credit risk from existing levels of bank NPAs.	Indian Banking Industry ; Secondary data ; Descriptive statistics	✓ The significant steps taken and procedures implemented by mostly Indian commercial banks towards recovery of loans and advances fall into the NPA bracket. ✓ The problem of NPAs can be tackled with proper credit assessment and risk management mechanism.
15. Rangini M. L. (2013)	An empirical study on NPAs management strategies between Public and Private Banks with special reference to banks in Bangalore city	✓ To understand magnitude & causes for NPAs. ✓ To know recovery measures adopted for NPAs management pre and post Securitization Act.	Public & Private Banks in Bangalore ; Primary & Secondary data ; Descriptive statistics	✓ Securitization Act has empowered Banks for reducing level of NPAs in Banks. ✓ Government reliefs have benefited the Banks to reduce NPAs.

Author (Year)	Title	Objectives of the study	Research methodology	Findings of the study
16. Dr. Tariq Zafar, Dr. Adeel Maqbool & S. M. Khalid (2013)	Non-performing Assets and its Impact on Indian Public Sector Banks	✓ To overview the concept & problem of NPAs. ✓ To highlights magnitude, causes and management of NPAs.	Public sector banks ; Secondary data ; Descriptive statistics	✓ Prescribed percentage of their credit (40%) to priority sectors is main causes of NPAs into banking sector. ✓ Debt recovery tribunals (DTR) and the SARFAESI Act is most effective in terms of amount recovered.
17. Samir & Deepa Kamara (2013)	A Comparative Analysis of Non-performing Assets (NPAs) of Selected Commercial Banks in India	✓ To analyze the trends in NPA in terms of values. ✓ To highlight policies pursued by the banks to tackle the NPA.	SBI, PNB, CBI ; Secondary data ; Descriptive statistics & Correlation	✓ Gross NPAs to gross advance ratio has shown declining trends. ✓ It suggests a multi-pronged strategy for speedy recovery of NPAs in banking sector.
18. Srinivas K. T. (2013)	A Study on Non-performing Assets of Commercial Banks in India	✓ To identify NPAs at commercial banks & understand the concept of it. ✓ To find reasons for creation of NPAs.	Indian Schedule Banks ; Secondary data ; Descriptive statistics	✓ Banks can avoid sanctioning loan to the non credit worthy borrowers by adopting certain measures of credit analysis. ✓ The use of technology like core banking solution in apex bank can make more reachable to all borrowers.

Author (Year)	Title	Objectives of the study	Research methodology	Findings of the study
19. B. Selvarajan & Dr. G. Vadivalagan (2013)	A Study on Management of Non-performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks (PSBs)	✓ To know and study about NPAs in Indian bank. ✓ To find out NPAs to priority sector lending of Indian Bank with Comparison to PSBs.	Indian bank & PSBs (Tamilnadu); Primary & Secondary data ; Descriptive statistics	✓ The growth of Indian Bank's lending to priority sector is more than PSBs. ✓ In case of NPA management, the performance of Indian bank is better than PSBs.
20. Siraj. K.K. & Dr. P. Sudarsanan Pillai (2012)	Management of NPAs in Indian SCBs: Effectiveness of SARFAESI Act, DRT & Lok Adalat	✓ To evaluate trends in management of NPAs with focus on three measures- SARFAESI Act, DRT & Lok Adalats . ✓ To evaluate relationship between various measures & sector wise NPAs.	Indian Banking Industry ; Secondary data ; Correlation & regression	✓ Among Priority sector NPA, recovery using SARFAESI Act showed positive & significant correlation with NPA. ✓ Growth rate of major recovery measures increased at a faster rate than NPA.
21. A. Rajangam & K.M.S. Syed Abuthahir (2012)	A Comparative Study of NPAs Management in Public and Private Sector Banks	✓ To study mechanism of legal regulatory regime of NPAs. ✓ To Analyses the performance, challenges & suggestions for different recovery channels.	Indian Banking Industry ; Secondary data ; Descriptive statistics	✓ Development in the management of NPAs is observed in India. ✓ The prudential norms and other schemes has : ➢ rushed banks to improve their performance . ➢ resulted into orderly down of NPAs. ➢ enhanced financial strength of the Indian banking structure.

Author (Year)	Title	Objectives of the study	Research methodology	Findings of the study
22. Namita Rajput, Monika Gupta & Ajay Kumar Chauhan (2012)	Profitability and Credit Culture of NPA: An Empirical Analysis of PSBs	✓ To analyze the nature, extent and magnitude of NPA in Indian banking sector. ✓ To examine the relationship between NPAs and profitability measure (return on asset) of banks.	Public sector banks ; Secondary data ; Correlation, ANOVA & OLS Regression Model	✓ There is a diminishing trend in the ratios of non-performing assets as GNPAs and NNPAs. ✓ There is a high degree of negative correlation between NPAs ratios with return on asset .
23. Nibedita Roy (2011)	A Risk Management Tool in Indian Banking Industry	✓ To evaluate different parameter influenced by introduction of securitization mechanism. ✓ To explain the impact of securitization act on performance and risk management factors of the bank.	Public & private sector banks ; Primary & Secondary Data ; Descriptive statistics	✓ Securitization had a positive impact on financial performance, asset quality ratios, enhancement of loan portfolio and risk management of Banks. ✓ Securitization provides method to be utilized by Banks to create the pools of assets that are used in the creation of the end financial instruments for supply of funds.
24. Poonga vanam.S (2011)	Non-performing Assets: Issues, Causes and Remedial Solution	✓ To highlight the reasons for an assets becoming NPAs. ✓ To find remedial measures to be taken.	Indian Banking Industry ; Secondary data ; Descriptive statistics	✓ Several micro and macro level reasons for an assets becoming NPAs are described. ✓ Various solutions given remedial includes ARCs, Lok adalat, Debt recovery triunal, SARFAESI Act.

Author (Year)	Title	Objectives of the study	Research methodology	Findings of the study
25. Yifei Yin (2010)	Research in the Securitization of Nonperforming loans of China's State-owned Banks	✓ To propose tentative ideas for the Securitization of the NPLs. ✓ To work out at some problems that needs to be solved in securitization of NPLs.	China's State-owned Banks ; Secondary data ; Descriptive statistics	✓ In designing the size of the issue of NPLs securities, their prices and their transaction, the repayment capacity of commercial banks must be taken into full consideration. ✓ It is necessary to adjust certain policies and regulations, to establish funds for securitizing NPLs, and to open the market for securitizing NPLs to insurance funds, pension funds, foreign investors and other institutional investors.

Research gap

The aim of this review is to identify the research gap by analyzing the literature on securitization act to contribute more in depth understanding of the research domain. Based on the review of retrieved research papers, following gaps in research methods, study setting and theoretical framework are found most relevant to securitization Act regarding Non Performing Assets management literature:

- ***Lack of studies to evaluate impact and effectiveness of securitization act in NPAs management.***
- ***The review shows that majority of research Articles are conceptual in nature; only few researchers used empirical approach to study Securitization Act for NPAs management.***
- ***Bankers' and Borrowers' perspectives regarding evaluating the impact of securitization act on NPAs is still ignored in studies.***
- ***Research studies regarding Challenges faced in Securitization Act in the management of Non Performing Assets are still not undertaken.***
- ***Very few studies have evaluated securitization act to propose suggestions in term of making it more effective.***
- Comparative Study of banking sector by grouping it as Pubic Sector banks, Private Sector banks and foreign banks to study the impact of securitization act in NPAs management is still need to be undertaken.

Justification of study

The **curative measures** for recovering NPAs includes measures initiated by RBI such as setting up Asset Reconstruction Companies (ARCs), Debt Recovery Tribunals (DRTs), Securitization Act, Compromise Settlement Schemes, etc. But still the level of NPAs in India could not be pulled down to the **International standard level (2%).**

Indian Banking Sectors	**Net NPAs**
Private Sector	4.6 %
Public Sector	6 .1 %

Source: m.timesofindia.com

As on Sep 2015

Gross NPA level of Indian banking sector stood at **Rs 4.5 lakh crore** (6%) as on December 31st, 2015. And in Present stress scenario, if recoveries and upgrades drop from past levels and the structural problems are not addressed, Gross bad loan at Indian banks **may rise to 8.5 % of total assets** by **March 2017** from **7.6% in March 2016**. (June 28, 2016, Source: NDTV.COM) .So it is necessary to analyze the impact of the securitization Act with a different perspective.

NPAs of Banks with high Net Worth

Following data of some of the leading banks of Public Sector are worth noticing.

Source: press release of these banks

Banks	**NPAs as on March 31, 2016**	
	Gross NPAs	**Net NPAs**
SBI	6.50 %	3.81 %
BoB	9.99 %	5.06 %
PNB	12.90 %	8.61%
Canara bank	9.40 %	6.42 %
BoI	13.07	7.79 %
IDBI	10.98 %	6.78 %

Source: RBI, Figures in Million

Banks	As on March 31st 2014		As on March 31st 2015	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
SBI	616054	310961	567253	275906
BoB	118759	60348	162614	80695
PNB	188801	99170	256949	153965
Canara bank	75702	59655	130400	87401
BoI	118686	76795	221932	137747
IDBI	99602	49023	126850	59925

It can be observed by above table that NPAs of these banks **are increased** within **one year** with a **big difference.** NPAs of these banks clearly shows that problem of rising NPAs is much bigger than it appears.

Research Objectives

The objectives of the study to evaluate the effectiveness of the enactment of Securitization act, 2002 on NPAs management are :

1) To explain the **need for securitization act** on management of NPAs.
2) To study the **pre and post impact** of enactment of securitization Act in NPAs management in Public Sector Banks.
3) To analyze **Bankers' & Borrowers' perception** towards impact of Securitization Act in NPAs management.
4) To identify the **challenges** under the Securitization Act.
5) To suggest **ways** for the **better management** of NPAs in respect to securitization act.

Research Questions

1. What are the **reasons to introduce securitization act** by RBI to contain the NPAs?
2. Has enactment of Securitization **act affected magnitude of NPAs** and How?

Bankers' perspective:

3. Do Bankers find securitization **act effective in managing NPAs**?
4. Do Bankers are able to **operationalize provisions** of the act in recovering NPAs?
5. What are the **obstacles** bankers face **during recoveries** of NPAs with securitization act?
6. Do Borrowers **misuse provisions of the act** to protect secured assets?

Borrowers' perspective:

7. Do borrowers are **aware of the provisions** of act to protect secured asset against any illegal activity done by secured creditor?
8. Do secured creditors exploit borrowers through **misusing the acts' provisions** to acquire the secured assets?
9. Do borrowers are **satisfied with the appeal procedure** against notice given by secured creditors?

Research Hypotheses

Let: Mean value of NPAs before enactment of act is $\mathbf{x_1}$ (for time duration one);
Mean value of NPAs after enactment of act is $\mathbf{x_2}$ (for time duration two);
Mean value of NPAs after enactment of act is $\mathbf{x_3}$ (for time duration three).

1. $\mathbf{H_0 \rightarrow x_1 = x_2}$ **:** There is no significant difference between **mean values of NPAs** of Banks **before** and **after enactment** of securitization act.

   $\mathbf{H_1 \rightarrow x_1 = x_2}$ **:** There is significant difference between **mean values of NPAs** of Banks **before** and **after enactment** of securitization act.

2. $\mathbf{H_0 \rightarrow x_1 = x_3}$ **:** There is no significant difference between **mean values of NPAs** of Banks **before** and **after enactment** of securitization act.

   $\mathbf{H_1 \rightarrow x_1 = x_3}$ **:** There is significant difference between **mean values of NPAs** of Banks **before** and **after enactment** of securitization act.

3. $\mathbf{H_0 \rightarrow x_2 = x_3}$ **:** There is no significant difference between **mean values of NPAs** of Banks **after** enactment of securitization act.

   $\mathbf{H_1 \rightarrow x_2 = x_3}$ **:** There is significant difference between **mean values of NPAs** of Banks **after** enactment of securitization act.

Research methodology

Research methodology is a way to solve the research problem systematically, while designing the research work the following methodology will be adopted.

➢ Type of study

On basis of mode of objectives perspective this study is **exploratory in nature**, since the scope of the study is very vast, the present study also represents some characteristics of **descriptive research design**. **Mixed research design** is used on the basis of mode of enquiry perspective, before-and-after study design is used for **quantitative approach** and case study design for **qualitative approach** to study the impact of securitization act on NPAs. **Before-and-after study** will be based on **analysis of NPAs values** and **case study design** will be based on **Bankers' and Borrowers' perception analysis**. Time period for the study is from **1994-95 to 2018-19**.

➢ Data Collection Instruments

Primary data Source and technique :

- ✓ Employees working in Recovery department, Credit Managers through unstructured interview.
- ✓ Borrowers of each selected public sector banks through unstructured interview.

Secondary data Source and technique:

- ✓ RBI publications, reports & website;
- ✓ Banks annual reports, publications & website selected in sample;
- ✓ News papers;
- ✓ Journals etc.

Data Analysis Tool :

The statistical tools which have been employed in this study are presented as follows:

- ✓ Mean or average value
- ✓ Standard deviation
- ✓ t-test

➢ Sampling Design

Universe:

The population addressed under the present study consists of **all public sector banks** operating in India.

Sampling Technique & Sample Size:

Sampling technique used for the study is **non-probability sampling** for both quantitative and qualitative approaches.

The sample for the study is of **6 public sector banks** are selected using **judgment sampling technique** on the **basis of net worth** as on 31st march 2016.

Bankers and Borrowers for perception analysis will be selected using **convenient sampling technique.**

Bankers' Perception will be analyzed on the basis of responses from recovery department managers, credit department managers etc. of the selected banks.

Borrowers' perception will be analyzed by taking the cases pending under securitization Act till 31st March 2016 of the selected banks.

Sample units:

Figures in Rs. Cr.

Banks	**Net worth**
State Bank of India	128438.22
Bank of Baroda	39835.35
Punjab National Bank	39079.52
Canara Bank	31859.23
Bank of India	31446.74
IDBI	24317.11

Limitations of the study

The study is **limited to six public sector banks,** which are selected **on the basis of net worth**. The time duration for quantitative approach is **1994-95 to 2018-19** for the study and for quantitative approach it is defined earlier. To study the Bankers' and Borrowers' perspective towards impact of securitization act the **sample size is not addressed** because **population is not defined** for that.

Chapterisation plan

The present thesis has been organized in to **seven chapters** as detailed below:

Chapter - 1: Introduction

Chapter - 2 : Research Methodology

2.1 Review of Literature

2.2 Research Gap

2.3 Objectives of Study

2.4 Hypothesis of Study

2.5 Data Source

2.6 Data Analysis Tools

2.7 Sampling design

Chapter - 3 : Overview of Indian banking

3.1 Brief introduction about banking

3.2 Need for banking

3.3 History of Indian banking

3.4 Banking system in India

3.5 Role of banks in Indian economy

3.6 Profile of selected banks

Chapter - 4 : Overview of NPAs

3.1 Concept of NPAs

3.2 Present scenario of NPAs

3.3 Impact of NPAs on banking

3.4 Measures for NPAs recovery

3.5 Mechanism of different recovery channels

Chapter - 5 : Conceptual overview of Securitization Act

5.1 Background of Securitization Act

5.2 Provisions of securitization act

5.3 Securitization and Reconstruction companies

5.4 Securitization transaction process

5.5 Parties involved in securitization

5.6 Stages involved in working of securitization

5.7 Categories of securitization instruments

5.8 Issues under the Securitization Act

5.9 Risk management in securitization

5.10 Provisions of DRT and DRAT

Chapter - 6 : Data Analysis & Interpretation

6.1 Impact of securitization act on NPAs management

6.2 Bankers' perception towards the act

6.3 Borrowers' perception towards the act

Chapter - 7 : Findings , conclusion & Suggestions

Annexure

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Annexure

Net worth of Public Sector Banks as on March 31st, 2016

S. no.	Banks	Rs. crore
1.	State bank of India	128438.22
2.	Bank of baroda	39835.35
3.	Punjab national bank	39079.52
4.	Canara bank	31859.23
5.	Bank of India	31446.74
6.	IDBI	24317.11
7.	Union bank of India	18336.18
8.	Cental bank of India	17456.91
9.	Indian overseas bank	15641.02
10.	Indian bank	14833.26
11.	Oriental bank of commerce	13779.35
12.	Syndicate bank	13058.78
13.	Allahabad bank	12642.78
14.	Uco bank	12548.96
15.	Corporation Bank	10484.48
16.	Andra bank	10064.09
17.	Bank of Maharastra	8067.33
18.	Dena bank	7440.13
19.	Vijaya bank	6159.76
20.	State bank of Bikaner & jaipur	6012.68
21.	State bank of Travancore	5726.38
22.	Punjab & Sind bank	5596.17
23.	State bank of mysore	4932.37
24.	Karnata bank	3389.06

Source: m.economictimes.com